

Journal of
Economics and Political Economy

www.kspjournals.org

Volume 3

December 2016

Issue 4

A Paternalist's Mistake: Rent Control

By Miguel ARIAS ^a Christine ANDERSON ^b
& Walter E. BLOCK ^{c†}

Abstract. Rent control, to the economically uninitiated, sounds like a good idea. After all, given that poor people spend a disproportionate percentage of their incomes on housing, what policy could possibly be of more help to them than to lower their rents? Profit-seeking landlords can hardly be expected to do so on their own. Their inability to undertake so public-spirited a policy thus constitutes a “market failure,” and only government can ride to the rescue of the suffering masses. This at least is the story widely told by journalists, clergy, teachers, etc. The present paper is an attempt to shed some light on the very opposite perspective: that rent controls lower the supply of residential rental housing, and thus hurt the poor, the very people supposedly helped by this unwarranted legislation.

Keywords. Price control; rent control; housing; profits; shortages.

JEL. R31.

1. Introduction

Rent control is a policy beloved of the economically illiterate. Contrary to the usual suppositions, it does not lead to lower rents for the masses of poor people, it does not produce more or better housing, it does not promote economic welfare. What it does accomplish is the very opposite: higher rents, paradoxically, lower quality buildings, and shortages. In section II we consider the history of this pernicious legislation. Section III is given over to exploring the many and serious flaws of this legislative enactment. We conclude in section IV.

2. History

Countries in Europe first started implementing rent control following World War I (Jenkins 2009, 73). Because all building materials were repurposed for use in the war, residential buildings were no longer being built due to lack of resources (Willis 1950, 55). This, in turn, caused a housing shortage which made rents sky rocket (Willis 1950, 55). Then, these European countries responded by imposing rent freezes, otherwise known as “first generation” rent control laws (Jenkins 2009, 74). These controls prevented prices from changing at all, which played havoc with

^a Joseph A. Butt, S.J. College of Business, Loyola University New Orleans, 6363 St. Charles Avenue, Box 15, Miller Hall 318, New Orleans, LA 70118, USA.

✉. maarias@loyno.edu

^b Joseph A. Butt, S.J. College of Business, Loyola University New Orleans, 6363 St. Charles Avenue, Box 15, Miller Hall 318, New Orleans, LA 70118, USA.

✉. cnanders@loyno.edu

^{c†} Joseph A. Butt, S.J. College of Business, Loyola University New Orleans, 6363 St. Charles Avenue, Box 15, Miller Hall 318, New Orleans, LA 70118, USA.

☎. (504) 864 7934

✉. wblock@loyola.edu

incentives for new building and maintenance of the extant housing stock. Why were prices so rigid? Why did these laws stay in place until after World War II? One hypothesis is that it was because of European struggles with reconstruction, (Jenkins 2009, 74). As time went on, and reconstruction began to improve, the laws began to change, and rental prices were allowed to change slightly with the changing of the market pressures (Jenkins 2009, 74). Another explanation is what the Public Choice School characterizes as “rent seeking.”¹ In this case, there were more tenants than landlords; the former group was more politically powerful than the latter. That would account for the rigidity. Why, then, the softening? A possible explanation is that economic sanity once again arose, in the midst of the rubble created by these laws..

There are two different theories as to how, when and why rent control emerged in the United States. Some say it began in the same way as in Europe; resources were being reallocated to the manufacture of airplanes, guns, ammunition, and artillery for World War I; they were no longer being used to construct residential buildings (Dizikes, 2013). This, in turn, led to an extreme shortage of available housing; for example the vacancy rates in New York dropped lower than 1 percent (Dizikes, 2013). This incredibly low supply led to drastically high prices. Clearly, tenants were not too happy with this state of affairs; as a result, they began to riot (Dizikes, 2013). Many of these disturbances occurred in neighborhoods with a large number of working- class citizens in Brooklyn neighborhoods, such as Brownsville and Williamsburg; these housed many Jewish immigrants (Dizikes, 2013). Why is this pertinent? Because many of the women who lived there had jobs in the garment manufacturing industry that had recently been on strike for better working conditions, and therefore, the rent strikes took a very similar approach (Dizikes, 2013). Women in these neighborhoods fought with their landlords, organized and staffed the picket lines, and attempted to fend off police intervention (Dizikes, 2013). As these insurgencies gained momentum, the New York legislature took notice, and despite the fact that it was run by Republicans, who typically favored landlords and building owners, they passed a program intended to keep rents low and reduce the incidence of evictions (Dizikes, 2013). Shortly afterward, other United States cities with significant working class populations, like Washington D.C., adopted similar laws (Dizikes, 2013). Even though these cities attempted to keep rents down, they did not put together any official body² to enforce these new laws (Dizikes, 2013).³ Because of this, laws were enforced at the discretion of 50 different municipal court judges, some of whom ruled in favor of the tenants, and others in behalf of the landlords and building owners (Dizikes, 2013). This period of housing shortages ended around the mid-1920s, after a large surge in the construction of residential housing. Thus the time of high rents ended, and the laws that were in place to combat them expired in 1929 (Dizikes, 2013). This however, was not the end of rent control, it was simply the beginning of a different type of legislation of this sort, similar to the kind we see today.

A second explanation for the advent of World War I rent controls is that they were simply a part of general price controls instituted at the same time. Yet another alternative view is that they were needed due to vast war-related migration patterns. For example, shipyard hiring on the Atlantic coast of the U.S. catapulted into the stratosphere. Tens of thousands of workers moved to these areas. Simple supply and demand economics would indicate rents rising through the prof, as the supply of residential housing could not keep up with the sudden demand.⁴ It is our contention that all three explanations played a role.

Rent control made its comeback during World War II. At this point in time, many families were forced to move to different parts of the country due to the war

and to, again, the new places where they could find jobs (Jenkins, 2009, 74). Many of these families ended up being relocated to New York, and as a response to the huge rise in demand for housing, prices also rose. This is when the city of New York implemented The U.S. Emergency Price Act of 1942 (“Emergency Price Control Act”, 1999). This act set a maximum price that rents could reach during World War II taking into account the occurrence of wartime inflation (“Emergency Price Control Act”, 1999). The goal of this act was to “ensure affordable housing and to prevent profiteering” (Jenkins, 2009, 74). Because this act was put in place to affect rent prices specifically during the war, it presumably would have ended in 1945. However, in one of the greatest anomalies in all of economics, rent control is still in place in New York City as of the year of this writing, 2016, in order to “cure” a World War II “emergency” that should have ended 71 years previously. So much for a price ceiling curing a shortage. Rather, as economics 101 teaches us, it actually creates a gap between a greater demand and a shorter supply.

Most of the other cities that had enacted rent controls abandoned them after a surge in housing in the late 1940s made housing more widely available. By the early 1960s, New York was the last city in the United States still clinging to its outdated World War II rent control laws (Jenkins, 2009, 74).

Despite the fact that rent control had all but died out, it made a comeback in the 1960s. Inflation at this time began to rise, eventually making its way into to double digits. This eventually caused a resurgence of rent riots, and we began to see phenomena such as the Harlem Rent Strikes, and groups such as the Chicago Tenants Union (Jenkins, 2009, 74). Rent control once again found its home in places like New York, Washington D.C., Massachusetts, Seattle, New Jersey, and Baltimore by the 1970s (Jenkins, 2009, 74).⁵ By the 1980s, rent control had died down again, and by 2001, only several jurisdictions in the entire United States still regulated the maximum level of rent.

Based on this history, it is clear to see why this law was an attractive option at the time. People were having difficulties adjusting after both World Wars, and when people started rioting in the streets, the government felt the best decision was to step in. So, in order to keep the peace, they thought it advisable to regulate price in favor of the desires of people who were economically illiterate. Unfortunately, this policy decision was made without reckoning with basic supply and demand analysis.

Those who favor rent control tend to fall left of center politically; they believe that such laws keep poorer individuals from being pushed out of cities that are largely inhabited by richer people who can afford to pay higher rents (“Do Rent Controls Work?”, 2015).⁶ Rent control allows tenants to estimate how much their payments will be for many years to come, which makes it easier for people with low incomes to plan for their future and save accordingly (Gallagher, 2016). It also guarantees against the possibility that tenants will have to pay more in rent than they can afford, let alone their total earnings (“Pros & Cons of Rent Control” 2016).⁷

Rent control does not only impose maximum prices it also regulates the conditions under which a tenant can be evicted. This is because of vacancy decontrol.⁸ That policy gives landlords the power to raise rents, sometimes to the current market price when the unit becomes vacant (Gallagher, 2016). If landlords had the power to evict anyone they chose, this would completely nullify that enactment. This provision prevents that from happening. Most laws mandate landlords to have just cause for eviction and fully defines the requirements (Gallagher, 2016). Typically, just cause includes failure to pay rent, breach of lease, or creating a nuisance (Gallagher, 2015). Rent control also guarantees continued housing for people on a limited income, such as the elderly and those on

disability (Cohen, 2012). If rent control did not exist, these people would not be able to live in more expensive cities such as New York or Los Angeles⁹. All of these stipulations greatly benefit a sitting tenant: he has a guaranteed price for rent, he will never have to pay significantly more than he did when he moved in, and as long as he follows the (reasonable) rules of the building, he will never be evicted. If rent control helps so many people, how could anyone think it is a bad thing? The answer to this question is even though rent control seems undoubtedly helps some people, in all reality, it has very serious drawbacks.

3. Flaws

Rent control laws destroy cities. These laws ultimately lead to the abandonment of buildings and the destruction of cities. Rent control discourages rental housing not only from being built, but also from being maintained. Because investors are motivated by profit, they will not want to invest in something, such as residential housing, that has a cap on how much they can charge, because it severely limits the amount of profit they are able to make (Friedman, Hayek, Block, Kalyon, 1981). If few people are investing in residential housing, apartment buildings will stop being built which will lead to an even larger shortage in housing. Therefore, by attempting to create affordable housing, rent control actually makes it more difficult to find housing at all.

Buildings that are rent controlled tend to be poorly maintained (“Does Rent Control Work?” 2015). There are two reasons for this. First of all, if the cost of living in an area increases, but the rent remains the same, the landlord will progressively make less of a profit and therefore will not be able to afford all of the costs associated with maintaining the building (“Pros & Cons of Rent Control” 2016). The second reason for this is incentives. If landlords know they will only make a set amount of profit, they have less incentive to improve the building or even keep it in good condition.¹⁰ These two things ultimately keep landlords from maintaining their buildings and they not only begin having structural issues, but they begin to crumble, and if all of the residential buildings in a city are rent controlled, and none of them are maintained, the whole city will start to look like a war zone.

Rent control also creates and/or exacerbates racial discrimination in the housing market. These laws take the price factor out of the decision of who gets which apartment. Under free enterprise landlords filled their buildings with people who could afford to pay the rent. But with fixed rents landlords are able to employ other characteristics. This could be anything from age to sex to race. For example, if you are a middle aged man looking for a woman, you might give all of you available apartments to young single members of the opposite sex. If you are a racist, you might fill apartments with white of a different color.

This enactment also mismatches tenants and real estate (Block, 2008). For example, consider a family of eight living in an eight room controlled apartment. When they moved in, it was the perfect dwelling for them; they all had their own room, there were multiple bathrooms, it was great. However, as time goes on, and the kids move out, and the father dies, the mother begins using less and less of the apartment. She occupies only three of the rooms; she shuts off the other five, as they are too expensive to clean. With a free enterprise housing market she would undoubtedly vacate and find a smaller place, but because the rent is so low she is better off remaining. As a result another much larger family lives in a too small apartment and the available housing stock is minus three rooms. Under decontrol, rents would not shoot up as fast as otherwise would be the case, due to this “little

old lady” effect: those five rooms will come on the market much more quickly than the time it would take to construct new residences.

Some argue that such controls violate the law of the land. Will (2012) said, “Rent control is unconstitutional because it is an egregious and uncompensated physical occupation of property.” The constitution prohibits the government from taking private property for public use without making full compensation. Owners of rent controlled buildings argue that this is exactly what the government is doing by enforcing rent control laws. Critics argue that rent control is not unconstitutional because the units that are being rented are not for “Public use” (Will 2012). This argument is flimsy at best. It may not be a good use, but it is certainly “public” in that the government has enacted this law.

The economy functions best when we let the market decide, and rent control laws prevent this from happening. To many people, rent control laws seemed logical during and after World War II, but they certainly do not have a place in today’s society.¹¹ They supposedly help those in need and provide housing for people who may not be able to afford it, but in reality, rent control laws just made things worse. They destroy cities, create housing shortages, and foster discrimination. All rent control laws should be abolished, and decisions should be made by the market.

A paternalist government’s main focus is to appeal to the population by enacting policies that help, either economically, socially or physically (health) the majority of the population, if not all. While this sounds good, in practice it is very deleterious. These policies that have opposite effects of those intended. We will attempt to discredit paternalist practices, specifically those of rent controls¹² by arguing that they seek to give advantages and protect its citizens by regulating the market but in reality harm the economy of the country and thus the pockets of the people who live there. Rent control has always had a positive tone to it because it offers the possibility of lower rent for low income families. Governments often focus on these short-run effects and forget to account for the long-run. This especially contradicts Hazlitt’s (1946) insight that “one must trace not merely the immediate result but the results in the long run”. This author’s lesson serves to show that while the immediate result of rent control is low prices, this is not true in the long run. In fact, in May 1992 the *American Economic Review* issued a poll in which 93% of the economists who responded agreed in some way or another that “a ceiling on rents reduces the quantity and quality of housing available” (Alson, Kearl, Vaughan, 1992).

Rent control has been a major topic of conversation in densely populated cities such as Seattle, New York and San Francisco. In Seattle, rent prices rose 11% between 2010 and 2013 (“Do Rent Controls Work?”), which motivates those in favor of rent control or rent stabilization. Those who advocate rent control, such as New York City’s Mayor Bill de Blasio say that a freeze on rents would “fix the housing market” and make housing in big metropolitan cities more affordable to low-medium income families. Ault (1981) addresses the argument of rent controls as an aid to the poor and mentions that while rent controls aim to help the tenant “these gains are diminished as time wears on” (p. 57) thus strengthening the theory that rent control tends to negatively impact both tenants and landlords in the long run. A freeze on rent prices ultimately lowers the quality of the houses available for rent as well as significantly reduces the supply of available houses for rent. A cap on how much a landlord can earn takes away the incentive to fix up and rent out apartments, it also affects the willingness of the landlord to seek new tenants, “with rents below market clearing levels, landlords are able to reduce normal maintenance and still keep their units occupied at the maximum allowable rent”, says Ault.

For an image of what are the effects of rent controls in a city and the quality of life of its tenants we need not to go further than New York City. Holcombe (1995) explains that by 1986 the city owned 9% of the total housing stock in New York and that this was a direct result of rent controls. As the cost of maintaining the buildings increased and the price of renting them was frozen because of rent controls, many landlords and tenants abandoned their buildings, which ultimately ended up in ownership by the government. It then proceeded to renovate the buildings themselves, which raised public spending, or rent them out, which results in buildings that are over 60 years old been used instead of building new ones with more modern amenities. This leads to mismanagements of the publicly owned properties because, as Holcombe (1995, p. 86) describes, “saying that something is publicly owned means that nobody has ownership interest, so nobody has an incentive to take care of the property.” In contrast with no rent controls, landlords would constantly renovate and improve because they would have the incentive of attracting more tenants and making a bigger profit.

There is also the argument that rent controls benefit tenants because the Money they save in rent can now be used in something else which can ultimately improve their quality of life. This claim is inaccurate because as Ault (1981) explains, “the benefits he (the tenant) receives is the difference between the rent he pays for the unit and what he would be willing to pay if prices were not controlled.” So if the market values a property at \$600 but because of rent controls the landlord is obligated to rent it for \$400 only people who are willing to spend \$400 on rent will want it thus not really giving the tenants a real monetary benefit and making the landlord incur a loss of \$200. If a person wants to spend \$400 on rent that person will look for a place that is inside his budget regardless of rent controls, the difference will be that the property that the person would get under a controlled market would be of inferior quality.¹³ This shows that a free market where value is determined by supply and demand, landlords will up-keep their properties in order to increase demand for them.

Rent controls also have a negative effect on the supply of housing units. With a smaller margin of profit for landlords, many of them may leave that industry and seek a more profitable one. Tenants are also more prone to stay in their units for longer durations. This decreases labor mobility, one of the underpinnings of economic growth.

Those who support rent controls argue that the problem of supply could be fixed by increasing government investment in the housing industry as well as incentivizing the private sector to invest in the construction of buildings and other housing projects. In the case of private sector investment, it would be almost impossible for private investors to see housing projects as profitable. As Ault (1981, p. 66) puts it, “any legal change which has the effects of reducing the profitability of rental housing will result in the reduction of its construction.” To further stress this point, a decrease in private sector investment in construction would also constitute a loss of jobs in that industry and a slowdown on the flow of capital into cities, businesses and people’s bank accounts.

On the matter of government investment in public housing, it has been estimated that it “is 10% more expensive to produce” (Barton & Olsen, 1976). This would cause the cost of housing to rise.¹⁴ Ault (1981, p. 72) also argues that “costs may rise because of additional costs of dealing with the rent control bureaucracy” one of these expenses being the “administrative cost of the program”

Hayek (1981) looks at the matter of government boosting supply in terms of its long run effects and takes into account the increase in the size of the population over time. He explains that if the ultimate goal is to consistently keep rent prices down then the government would have to provide all the supply in the long run,

possibly taking complete control over housing. Given the fact that demand for housing is heightened by its control of prices, as population increases the government would have to keep building more housing projects and expanding investment ultimately causing it to become the primary supplier of housing units. This would raise complex financial questions in regards to taxes and public spending (Hayek, 1981, p. 174).

Moreover, this author talks about the elasticity of supply and demand of the housing market (Hayek, 1981, p. 173) and explains that shortages caused by regulations on rent prices cause tenants to stay for longer periods of time in the same house turning the property into a “capital asset.”¹⁵ This makes it much more profitable to sit on it rather than look for another place. As a consequence, demand for rentals would keep increasing with no creation of supply because of low profitability for the private sector and high costs for the public sector.

The Economist (2015) adds that “landlords may become more selective on who they rent their places and tenants may stay in properties longer than makes sense”. This allows property owners to more easily and cheaply indulge any tastes for discrimination (Becker, 1957) they may have. Other consequences related to supply and demand are that wealthy tenants may seek to buy cheap, non-luxury houses and remodel them to make them luxurious, driving the price of the property up and making a house that was one affordable to a middle income family unattainable (London, 2015). As well, since rent control legislation typically makes an exception for high-end rental housing, this furnishes yet another reason for upgrades; again, at the cost of the lower and middle classes, since this housing is now incompatible with their pocketbooks. The paternalist reason for regulating the housing market may well be to help those who have less purchasing power, but in practice it lowers the chances of them ever getting a decent place to live in.

Not only do rent controls have negative effects on supply and demand but they also impinge upon resource allocation. This, too, negatively impacts those at the bottom of the socioeconomic ladder, who are the ones the paternalist government presumably¹⁶ seeks to protect.¹⁷ As Hayek puts it, public building investment, caused by a decrease in supply due to low profitability of the industry, “distorts resource allocation” (p. 180). He also considers that the government ignores the fact that “the needs of those who happen to not have any accommodation at present and who head the queue for new construction do not coincide with the needs which would come to light if existing accommodation were distributed rationally” (p. 181). Thus, even when the government pours a significant amount of resources into building housing units they are not be in accordance with the demand. The result of this wrongful allocation of resources is the construction of housing units that do not correspond to the needs of those with the strongest demand.

What the theory of public investment fails to see is that in a market where rents are not controlled and people see profit in selling and renting their units, people whose homes no longer fulfill their needs would have an incentive to put them up for sale or rent and the market would correct any supply and demand imperfections. Hayek exemplifies this by giving a case in which homes are being built for families with children due to low supply of suitable accommodations and argues that it in a housing market with no rent control this would be unnecessary because there may well be older couples occupying homes that are now too big for them and do not satisfy their needs (Hayek, 1981, p. 181). Block (1981) refers to this as the “old lady effect.” These are cases where a whole family used to own a property but as time passed the family members started to die or move away resulting in one person (the old lady) staying behind in the property but not using all of it. Although the house may have become too big for the “old lady” it would not be profitable for her to sell the place because of rent controls. In a free market,

she would be able to put the property up for sale or rent, increasing supply. She could ultimately move to a smaller place that better served her needs, which implies an increase in supply for a specific type of house.

As rent control presents more and more problems, it raises questions as to how best to phase out this law. As to how government could move from a controlled to a free housing market, many who favor paternalism would argue that people who are unable to afford rent under the unregulated market would have to move to smaller dwellings. Hayek (1981, p.183) gives his assessment on the transition to the open market and recognizes that these types of problems may become a reality only if the transition is not managed in the correct way. His solution is not to allow rents to rise gradually but to make the open housing market as big as possible, while maintaining some temporary restrictions in particular cases. What he intends with this proposal is for private investment to “progressively enlarge as far as possible the existing free market sector catering for noncontrolled tenancies, subletting and home buying” (p. 184). This newly enlarged private housing sector would balance back the prices and provide supply without “creating a new demand by the eviction of the tenants”.

Hayek appears to fear that if rents are decontrolled all at once, havoc will be created in the housing market. Pent up demand will skyrocket prices; true, new building will also be forthcoming, supply curves slope in an upward direction after all, but this will take too much time. Better, for him, some sort of gradual process of decontrol. There are two errors here, a pragmatic one, and an issue of deontology. Let us consider the latter first. Rent control is a rights violation. It amounts to a taking (Epstein, 1985) of private property of the building owner. If we had the power to end this, in one fell swoop, and, yet, phased it out over a period of years, then we would be responsible for this violation of rights during the period it was still the law of the land.¹⁸ As a practical matter, Hayek reckons in the absence of the “little old lady effect” mentioned above. Within a very short period of time, rising rents would encourage “elderly women” to disgorge supply, as they moved to smaller quarters, to save money.¹⁹

4. Conclusion

Through the economic analysis of rent controls it is easy to see why government regulations on the market are counter-productive and can trigger consequences that negatively affect the quality of life of citizens. Policies like rent control sound appealing to the general public because they bring short term results that some people may see as favorable, but it is clear that they lead to worse situations and give more power to the governments to control the economic activities of its citizens. When policy makers suggest that the government should reduce rents they only see the fact that the tenant will pay less thus having more money to spare and that the landlord will keep making a profit just a smaller one. They ignore the fact that the landlord will try and find profit in a different industry or reduce costs by lowering the quality of his dwellings.

Rent control is a regulation that destroys the quality of cities, the incentive to invest in housing projects and that also imbalances supply and demand leaving many homeless or with no real options but to stay where they are and not look for anything better. With no real incentive for the tenant to keep the place in good condition, the quality of the houses goes down and “the decay of each building unit affects those nearby and a vicious cycle comes into place” (Ault). In the end, it is the long run effects what give way to the truth of rent control and expose what paternalist policies produce. If there were a free market where the government would not interfere with the behavior of the housing industry, more people would

Journal of Economics and Political Economy

be able to live in better maintained houses. Those with lower incomes would be able to afford homes that in a regulated market would be owned by those who are reluctant to let go of them because of the lack of incentive to profit from it. With all of these factors into place it is not hard to give credence to Lindbeck's (1972) statement that "in many cases rent control appears to be the most efficient technique presently known to destroy a city, except for bombing".

In the view of Myrdal (1965), another socialist Swedish economist²⁰: "Rent control has in certain western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision."

Notes

¹ For a critique of this particular phrase, but support of the concept, see Block (2000, 2002), Block & Gordon, (2016).

² Such as a rent control commission

³ One theory is that the legislatures could have done this on purpose in order to let the court judges use their discretion in matters off rent control, because they had to do something to keep people from rioting, but they didn't want to enforce any rent control laws that would actually make a difference.

⁴ It takes far longer to construct new housing than for would-be tenants to flock to a new area.

⁵ The difference between rent control in the 1940s, or first generation rent control, and rent control in the 1970s, or second generation rent control, is that the first generation rent control froze rents and didn't allow for any upward movement at all, whereas second generation rent control allowed for very minor changes in the rent (Jenkins 2009, 75).

⁶ This cannot be denied. Rent control will indeed preserve a space for poor people in the downtown area of major cities. But it is unclear as to why public policy should promote any such occurrence. Occupancy of prime real estate is a luxury good. A Rolls Royce also falls into that category. Should we encourage the poverty stricken to own automobiles of that sort? The very idea is preposterous. If the impecunious can occupy high class real estate and cars, what will be the point of becoming rich? And, if incentives toward wealth are atrophied, the entire economy will be undermined. No, the poor no more deserve a Rolls Royce vehicle than they do prime real estate.

⁷ This claim too, is undoubtedly true. With rent control, the tenants can more easily plan ahead. But they do so at the expense of the landlord. Where is the justification for seizing wealth from investors in real estate and giving it to occupants of rent controlled apartments, who are often very rich? If there is any case for transferring funds from rich to poor, an issue far beyond the scope of the present paper, rent control is an inefficient means toward this end, since there are rich tenants and poor landlords.

⁸ Phase I rent control, used during World War I, had no such provision. If a tenant departed voluntarily, the amount the landlord could charge a successor remained the same. Under such Draconian rules, no new housing was built, and lack of maintenance lead to housing deterioration. Phase II laws, enacted during World War II, allowed not only for rent raises upon eviction, but for increases based upon inflation.

⁹ This argument is not very strong, because if your fixed income is too low to afford the rent in a particular city, the cost of living in that city is probably too high for you, and you should move somewhere more affordable. It's not the government's job to make sure everyone can afford to live in the high rent district of their dream city. See fn. 9, supra on this issue.

¹⁰ In fact, because of eviction laws, it makes more sense for landlords to let their building fall apart, because tenants in rent controlled units would be more likely to want to move out, and when they did, landlords would be able to raise the rent of the unit.

¹¹ For an economic analysis critical of price controls during wartime, let alone during peace, see Higgs, (1992).

¹² Rent control is a law placing a maximum price, or a "rent ceiling," on what landlords may charge tenants. Block (1993).

¹³ Suppose a tenant values an apartment at \$401 per month, and rents it for the controlled rent of \$400. He earns a profit, or a consumer surplus, of \$1 monthly. If it could have rented for \$600 without controls, then, in order to benefit a tenant by \$1 per month, the landlord loses \$200. This is dead weight loss of \$199 per month. This is no way to run a railroad.

¹⁴ Public housing also comes replete with many and serious problems on its own. See Anderson, (2000); Bovard, (2000); Duxbury, (2013); Gamble, (1988); Gulliver, (2013); Jacobs, (1961); Marsh, (1991); Milligan, (2013); Wolfe, (1991). One difficulty is that main reason for implementing such

housing socialistic measures is the supposed “failure” of the private rental market. But this, as we have seen, has been brought about by rent control in the first place. Instead of introducing yet another government failure of a program, why not instead merely rescind the first policy that brought about the difficulty, namely rent control?

¹⁵ For the tenant, not the landlord, even though the latter, presumably, is the owner of the property in question.

¹⁶ We say “presumably” since in point of fact this law helps not the poor, but those fortunate enough to be residing in housing extant when the enactment comes into being. Typically, this is the rich, not the poor (Edwards, 2015) Mankiw (1998, p. 116) reports that the following movie stars, politicians, businessmen and other elite members of society have benefitted from this legislation: Mia Farrow, Cicely Tyson, Baroness Ingrid Thyssen, Sidney Biddle Barrows, Manfred Ohrenstein, Todd Goodwin, David Dinkins and Robert Morgenthau.

¹⁷ The point is, as a result of rent control too few resources are allocated to housing for the poor and the middle class, and too many to everything else under the sun.

¹⁸ Suppose we had the power to end slavery right now, but forbore, on the ground that so abrupt a change would be disruptive to the economy. Instead, we would this pernicious system over a period of ten years. Then, we would be responsible for this abomination for the duration it was still in force.

¹⁹ For a more thorough criticism of Hayekian gradualism, see Block (1996).

²⁰ A redundancy.

References

- Alson, R.M., Kearn, J.R., & Vaughan, M.B. (1992). Is There a Consensus Among Economists in the 1990's? *American Economic Review*, 82(2), 203–209.
- Anderson, W.L. (2000). The dangers of smart growth. *The Free Market*, May 28, 18(2), [Retrieved from].
- Ault, R. (1981). Advantages and disadvantages of rent, rent control, in *Rent Control: Myths & Realities*, W.E. Block & E.O. Olsen, (Eds.), Vancouver: The Fraser Institute, pp. 283-319. [Retrieved from].
- Barton, D.M., & Olsen, E.O. (1976). The benefits and costs of public housing in New York City, Institute for Research on Poverty, *Discussion Papers*, No.372 (Madison: University of Wisconsin), pp. 18-30.
- Becker, G. (1957). *The Economics of Discrimination*, Chicago: The University of Chicago Press
- Block, W.E. (1993). On rent control, D. Henderson, (Ed.), *The Fortune Encyclopedia of Economics*, New York: Warner Books, pp. 421-425. [Retrieved from] or [Retrieved from].
- Block, W.E. (1996). Hayek's *Road to Serfdom*, *Journal of Libertarian Studies: An Interdisciplinary Review*, 12(2), 327-350, [Retrieved from]. Reprinted in *Ama-gi: Journal of the Hayek Society at the London School of Economics*, 1(1), 22-25.
- Block, W.E. (2000). Watch your language, February 21. [Retrieved from].
- Block, W.E. (2002). All government is excessive: A rejoinder to ‘in defense of excessive government’ by Dwight Lee, *Journal of Libertarian Studies*, 16(3), 35-82. [Retrieved from].
- Block, W.E. & Gordon, D. (2016). Civil War. April 8. [Retrieved from].
- Block, W.E. (2016). Rent Control. *The Concise Encyclopedia of Economics*. N.p., 2008. Web. 30 Apr. 2016.
- Bovard, J. (2000). HUD's Biggest Farce? *The Free Market*. November. 18(11), [Retrieved from].
- Cohen, A. (2016). What if the supreme court kills rent control? *TIME*. 19 Mar. 2012. Web. 30 Apr. 2016.
- Dizikes, P. (2016). The 'great rent wars' of New York. *MIT News*. N.p., 21 Oct. 2013. Web. 28 Apr. 2016.
- Edwards, J. (2015). No, rent control does not work - it actually benefits the rich and hurts the poor. December 3. [Retrieved from].
- Gale Encyclopedia of U.S. (2016). Emergency price control act. *Encyclopedia.com*. HighBeam Research, 1999. Web. 28 Apr. 2016.
- Epstein, R.A. (1985). *Takings: Private Property and the Power of Eminent Domain*, Harvard University Press, Cambridge, Massachusetts and London, England.
- Duxbury, N. (2013). Iron Lady's right to buy and economic policies had far-reaching impact; Social landlords reflect on Thatcher's legacy.” April 12. [Retrieved from].
- Friedman, M., Von Hayek, F.A., Kalymon, B., Block, W. & Olsen, E.O. (1981). *Rent Control, Myths & Realities: International Evidence of the Effects of Rent Control in Six Countries*. Vancouver, B.C., Canada: Fraser Institute.

- Gallagher, M. (2016). The advantages & disadvantages of a rent-controlled apartment. *Home Guides*. Demand Media, n.d. Web. 30 Apr. 2016.
- Gamble, A. (1988). Privatization, Thatcherism, and the British State, *Journal of Law and Society*. 16(1), 1-20. doi. [10.2307/1409974](https://doi.org/10.2307/1409974)
- Gulliver, K. (2013). Thatcher's legacy: her role in today's housing crisis; Margaret Thatcher made a huge impact on the housing sector during her time in office, and we can still feel the effects today. *The Guardian*. April 17. [\[Retrieved from\]](#).
- Hayek, F.A. (1981). Repercussions of Rent Restrictions, *Rent Control: Myths & Realities*, W.E. Block & E.O. Olsen, (Eds.), Vancouver: The Fraser Institute, pp. 172-188. [\[Retrieved from\]](#).
- Hazlitt, H. (2008[1946]). *Economics in One Lesson*. Auburn, AL: Mises Institute. [\[Retrieved from\]](#).
- Higgs, R. (1992). Wartime prosperity? A reassessment of the U.S. economy in the 1940s. *The Journal of Economic History*. 52(1), 41-60. doi. [10.1017/S0022050700010251](https://doi.org/10.1017/S0022050700010251)
- Holcombe, R.G. (1995). *Public Policy and the Quality of Life*. Westport, CT: Greenwood Press.
- Jacobs, J. (1961). *The Death of Life of Great American Cities*, New York: Modern Library
- Jenkins, B. (2009). Rent control: Do economists agree? *A Journal of the American Institute for Economic Research*, 6(1), 73-112.
- Lindbeck, A. (1972). *The Political Economy of the New Left*, New York: Harper and Row; cited in Rydenfelt, S. *The Rise, Fall and Revival of Swedish Rent Control*, in *Rent Control: Myths and Realities*, W.E. Block & E. Olsen, (Eds.) Vancouver: The Fraser Institute, 1981, pp. 213, 230.
- London, R.A. (2015). The spectre haunting San Francisco, *The Economist*, Apr 16. [\[Retrieved from\]](#).
- Mankiw, N.G. (1998). *Principles of Microeconomics*. South-Western, Cengage
- Marsh, D. (1991). Privatization under Mrs. Thatcher: a review of the literature. *Public Administration*, 69(4), 459-480. doi. [10.1111/j.1467-9299.1991.tb00915.x/abstract](https://doi.org/10.1111/j.1467-9299.1991.tb00915.x/abstract)
- Milligan, B. (2013). Right-to-buy: Margaret Thatcher's controversial gift. *BBC News*. April 10. [\[Retrieved from\]](#).
- Myrdal, G. (1965). Opening address to the council of international building research in Copenhagen, cited in "Dagens Nyheter (Swedish Newspaper), 25 August 1965, p. 12; cited in Rydenfelt, Sven, "The Rise, Fall and Revival of Swedish Rent Control," in *Rent Control: Myths and Realities*, Walter E. Block and Edgar Olsen, eds., 1981. Vancouver: The Fraser Institute, p. 224; cited in Block, Walter. 1981. "Preface." *Rent Control: Myths and Realities*, W.E. Block & E. Olsen, (Eds.), 1981. Vancouver: The Fraser Institute, p. xiv.
- People, (2016). Pros & cons of rent control. *People*. Web. 30 Apr. 2016.
- The Economist, (2015). Do rent controls work? *The Economist Newspaper*, 30 Aug. 2015. Web. 29 Apr. 2016. [\[Retrieved from\]](#).
- The New York Times, (1985). Rent control forever. 27 May 1985. Web. 30 Apr. 2016.
- Will, G.F. (2012). Rent control laws: Foolish and unconstitutional. *Washington Post*. 15 Feb. 2012. Web. 30 Apr. 2016.
- Willis, J.W. (2016). A short history of rent control laws. *Cornell Law Review*, 36(1), 54-90.
- Wolf, J. (1991). State power and ideology in Britain: Mrs Thatcher's privatization programme. *Political Studies*. 39(2), 237-252. doi. [10.1111/j.1467-9248.1991.tb01365.x](https://doi.org/10.1111/j.1467-9248.1991.tb01365.x)



Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal. This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by-nc/4.0>).

